# Balmer Lawrie and Company Limited

January 05, 2024

| Facilities | Amount (₹ crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term / Short-term bank facilities | 150.00 | CARE AA+; Stable / CARE A1+ | Reaffirmed |
| Short-term bank facilities | 20.00 | CARE A1+ | Reaffirmed |

Details of facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Balmer Lawrie and Company Limited (BLCL) continue to derive strength from the long and satisfactory track record of the company with presence across diversified businesses and controlling equity stake held by the Government of India (GoI) in it. Its diversified revenue stream de-risks its overall business from any downturn in a particular segment. Furthermore, the ratings are underpinned by its established relationship with reputed clientele apart from the significant amount of business it derives from various government entities in some of its business segments.

The ratings also draw significant comfort from BLCL's robust capital structure, healthy debt coverage indicators and strong liquidity position. The low debt level is expected to continue going forward and significant liquidity is expected to remain in the books of the company notwithstanding the normal dividend pay-out.

The ratings take note of the significant increase in the total operating income (TOI) of BLCL in FY23 over FY22 driven by the increase in revenue from all the business divisions except industrial packaging. The operating profitability margin, however, remained moderate due to high competitive intensity in some of the divisions. In H1FY24, the operating profitability margin has improved over H1FY23 with healthy profitability reported by the travel and vacation division and lube division.

Going forward, the operating margin is expected to remain moderate, with slight improvement, on account of some of its divisions operating in mature market segments with intense competitive pressure, susceptibility to volatility in input prices, linkages with performance of overall economy and pressure on the Container Freight Station (CFS) in logistic business division post introduction of Direct Port Delivery (DPD) in ports. Nevertheless, the debt coverage indicators are expected to remain healthy with low reliance on debt to fund working capital and capex requirement and liquidity available with the company.

The ratings also take note of the exposure of BLCL to its subsidiaries and joint ventures (JVs), with some of these entities having weak financial risk profile; albeit the stated stance of the company to not provide further support to these entities restricts incremental financial exposure, except a nominal support extended in FY24 to one of its subsidiaries.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significant growth in the scale of operations marked by healthy performance of each of its divisions on a sustained basis by growing its market share
- Improvement in PBILDT margin and return on capital employed (ROCE) to above 20% and 25%, respectively, on sustained basis

### Negative factors

- Any debt-funded capex leading to deterioration of its overall gearing ratio above 0.40x or net debt/PBILDT above 1x on a sustained basis
- Increase in exposure to the group companies adversely impacting its credit profile
- Significant dilution of stake in the company by GoI to below majority level

**Analytical approach:** Standalone along with factoring GoI's majority ownership.

**Outlook:** Stable

The stable outlook reflects that BLCL is expected to sustain its strong financial risk profile given its diversified business portfolio and strong market position in some of the key business divisions.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

**Diversified business model (revenue streams) acts as a de-risking strategy:**

BLCL has a long and satisfactory track record of over 150 years of operations. In the initial years of its existence, BLCL was only into trading business. Later, in 1937, BLCL entered manufacturing when it set up its first grease plant in Kolkata. Over the years, BLCL forayed into several other activities like manufacturing of different types of barrels & containers and offering varied services. The company operates under seven broad strategic business units (SBUs), i.e., Industrial Packaging (IP), Greases & Lubricants (G&L), Travel & Vacation (TV), Logistics Infrastructure & Services (LIS), Leather Chemicals division (LC) and Refinery & Oil related services.

The company has classified each vertical as a SBU to have greater focus on each vertical, thereby leading to overall growth and profitability of the company and which also helps the company in mitigating downturn of any particular business sector/SBU. In FY23, contribution from manufacturing SBUs stood at around 55%, whereas from service SBUs stood at around 45%.

The revenue from almost all the SBUs increased in FY23 except the SBU-Industrial Packaging which reported a decline due to a sharp drop in offtake from chemicals as well as from fruits segments. SBU - TV had been significantly impacted due to the pandemic in FY21. Contribution to sales from the SBU increased in FY23 and are closer to pre-pandemic levels. In H1FY24 also, the SBU - TV reported substantial increase in sales owing to surge in travel activities for business and leisure purpose post the pandemic. Logistics infrastructure and greases and lubricants segment have also witnessed growth in sales.

**Diversified, reputed client base with established relationship across both Public Sector Undertakings (PSUs) and private sector:**

BLCL, a 'Miniratna – I' Central PSU, has been under the administrative control of Ministry of Petroleum & Natural Gas, GoI, since 1972. Currently, GoI owns 61.8% of BLCL's equity through Balmer Lawrie Investments Limited.

BLCL's Central PSU status helps it to generate revenue from other PSUs and Government departments, especially in service-SBUs. It has a strong clientele comprising central PSUs and oil companies, ISRO, defence entities, Indian Railways and reputed private sector players. Government departments/PSUs contribute about 60% to SBU-TV and about 40% to SBU-LS. Overall government departments/PSUs contributed more than 25% in its total revenue in FY23.

The company has successfully broken away with its major dependency on Government & PSU clients in industrial packaging division and established relationship with private parties. To reduce client concentration in service-SBUs, BLCL is focusing on enhancing marketing strategies to cater to private sector clients as well.

**Robust capital structure and healthy debt coverage indicators:**

The overall gearing of BLCL continued to remain robust as on March 31, 2023 at 0.02x. The coverage ratios too remained healthy with improvement in operating profit level and low reliance on debt. For FY23, interest coverage ratio and total debt/gross cash accruals (GCA) stood at 18.67x and 0.15x, respectively, as against 26.56x and 0.16x in FY22. The company does not have plans to avail additional debt in the medium term and the borrowings, if any, would comprise mainly towards working capital. The outflow towards routine capex is expected to be funded through internal accruals.

### **Liquidity:** Strong

BLCL has strong liquidity profile marked by strong accruals against no debt repayment obligations and cash and liquid investments to the tune of ₹352 crore as on September 30, 2023.The utilisation of sanctioned fund-based working capital limits remained nil for the 12 months ended November 30, 2023, providing further liquidity comfort. Going forward, the company is planning an ethanol plant in Andhra Pradesh with capex expected around ₹300 crore, which would be funded through mix of debt and internal accruals (around ₹200 crore from debt and rest from internal accruals). With gearing of 0.03x as on September 30, 2023, BOCL has sufficient gearing headroom, to raise additional debt for its capex.

### Key weaknesses

**Growing TOI with moderate operating margin:**

BLCL reported growth in TOI by 13% y-o-y in FY23 owing to increase in the sales contribution from most of the divisions. The travel and vacation division witnessed further revival in FY23 from the impact of COVID-19 with sales of ₹146 crore (PY: ₹64 crore) from increase in business and leisure travels. In H1FY24, however, the company reported de-growth of 2% in TOI y-o-y because of lower turnover in logistic services sector, which was affected by the big shipment projects not commencing yet, alongside the decrease in ocean freight rates, which also led to lower PBIT in the sector.

The operating profitability of the company was impacted significantly in FY21 due to the huge losses from SBU-TV, rising raw material prices and intense competition. Despite improvements over the past two years, it continued to remain impacted in FY23 with PBILDT margin at 7.93% vis-à-vis 7.54% in FY22.
With turnaround in the travel division and improved profitability in LIS and lubricants division, the impact of the reduced profitability in industrial packaging was negated. The overall PBILDT margin improved to 11.68% in H1FY24 from 8%% in H1FY23.

**Volatility in raw material prices:**
Raw material consumption constitutes around 70%-77% of the company's cost of sales. The major raw material required by SBU-IP is cold-rolled steel product and for SBU-GL is lubricating base oil (LBO), together constituting around 74% of cost of raw material consumed in FY23 (81% in FY22). The price of LBO is highly volatile as the same is linked to crude oil prices. In case of adverse movement in the raw material prices, the profitability margins are impacted due to inability to pass on to the customers on account of stiff competition or passed on with a time lag. The prices of cold-rolled steel witnessed dip in FY23 which led to decline in selling prices for IP products of BLCL and contraction in its profitability.

**Some of the SBUs operating in mature market segment with intense competitive pressure:**
**SBU-IP:** The industrial packaging industry is characterised by low entry barriers, large number of unorganised players, presence of low-cost substitute products (such as HDPE drums), and surplus capacities. Widespread market reach, large volume, competitive pricing and access to alternate markets would be major survival factors for the players in the long run. BLCL is diversifying its customer base in private players.
**SBU-LIS:** The container freight station (CFS)/inland container depot (ICD) industry is expected to be under pressure due to implementation of direct port delivery which is expected to hamper volumes and result in consequential lower utilisation.
**SBU-GL:** The GL industry is divided into two major segments – industrial and automotive accounting for about 35% and 65% of the market, respectively. Companies with proven source of premium quality base stocks, sound R&D setup, wide distribution network and wide infrastructure of professionalised technical services will continue to survive and grow. BLCL has low market share in the GL industry with presence majorly in the industrial segment. It faces significant competition from other established and larger players in the industry.
**SBU-TV:** The travel and vacations industry had witnessed significant adverse impact due to the pandemic. With receded impact of the pandemic, the outlook for travel & tourism industry has improved and the volume of business in expected to grow significantly over next few years. BLCL continues to face intense competition from online as well as offline travel portals.
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**Exposure to weak subsidiaries; albeit no incremental financial support envisaged:**
BLCL has one subsidiary and four JVs as on March 31, 2023, and the total exposure to such entities stood at ₹130.15 crore as on the same date. Some of these entities have weak financial and business profile, especially Visakhapatnam Port Logistics Park Limited (VPLPL), which has also impacted BLCL's ROCE. However, operations have started in VPLPL in March 2023 following receipt of CFS/ICD licence in January 2023 and its revenue is expected to improve gradually. BLCL is provided limited support in FY24 for meeting VPLPL's principal repayment (estimated at around ₹8 crore – ₹10 crore) in the form of unsecured loans. However, as in the past, BLCL has clearly stated that no further financial support would be provided to such entities thereby restricting any incremental exposure to such entities. Furthermore, BLCL has not provided any guarantee for debt availed by any of these entities.

## Environment, social, and governance (ESG) risks
The company has till date installed solar plants with a total capacity of 626 KWp in seven different sites at Asaoti, Navi Mumbai, Chennai, Patalganga, Rai and Silvassa (two locations). This helps Balmer Lawrie to offset approximately 950 tons of carbon dioxide per year from its manufacturing and cold chain operations. Single-use plastic is banned in all plants of BLCL. The wastewater is treated and is reused.
The company spent ₹3.77 crore on CSR in FY23. The composition of the Board of Directors was not in conformity with Listing Regulations, Companies Act, 2013 and DPE Guidelines due to absence of adequate number of Independent Directors on the Board of the Company.

## Applicable criteria

[Policy on default recognition](#)
[Factoring Linkages Government Support](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manufacturing Companies](#)
[Service Sector Companies](#)

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Diversified | Diversified | Diversified | Diversified |

BLCL, established in 1867 as a partnership firm to deal in freight forwarding and imports clearing into India, is a Central PSU under the administrative control of Ministry of Petroleum & Natural Gas, GoI, since 1972. The company has an established track record of over 150 years of operations with interest in various business segments. In 1924, it was incorporated as a private limited company, and in 1936, it was converted into a public limited company. Currently, GoI owns 61.8% of BLCL's equity through Balmer Lawrie Investments Limited. In 2006, BLCL attained a Mini Ratna – I status.
BLCL is a diversified, multi-location and multi-product conglomerate, manufacturing steel barrels for industrial packaging (IP), greases & lubricants (GL) under the brand name *BALMEROL* and leather chemicals (LC). Furthermore, it carries out various service-based activities such as logistics infrastructure & services (LIS), travel & vacation (TV), project engineering & consultancy in oil & infrastructure sector. The company operates under seven broad strategic business units.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | H1FY24 (UA) |
|---|---|---|---|
| Total operating income | 2,043.47 | 2,311.81 | 1169.83 |
| PBILDT | 154.08 | 183.29 | 136.62 |
| PAT | 122.81 | 153.86 | 100.74 |
| Overall gearing (times) | 0.02 | 0.02 | 0.03 |
| Interest coverage (times) | 26.56 | 18.67 | 21.19 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - ST-Bank overdraft | | - | - | - | 20.00 | CARE A1+ |
| Fund-based/Non-fund-based-LT/ST | | - | - | - | 50.00 | CARE AA+; Stable / CARE A1+ |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 100.00 | CARE AA+; Stable / CARE A1+ |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Non-fund-based - ST-Bank guarantee | ST | - | - | - | 1)Withdrawn (20-Dec-22) | 1)CARE A1+ (30-Dec-21) | 1)CARE A1+ (01-Oct-20) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST* | 100.00 | CARE AA+; Stable / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (20-Dec-22) | 1)CARE AA+; Stable / CARE A1+ (30-Dec-21) | 1)CARE AA+; Stable / CARE A1+ (01-Oct-20) |
| 3 | Fund-based/Non-fund-based-LT/ST | LT/ST* | 50.00 | CARE AA+; Stable / CARE A1+ | - | 1)CARE AA+; Stable / CARE A1+ (20-Dec-22) | 1)CARE AA+; Stable / CARE A1+ (30-Dec-21) | 1)CARE AA+; Stable / CARE A1+ (01-Oct-20) |
| 4 | Fund-based - ST-Bank overdraft | ST | 20.00 | CARE A1+ | - | 1)CARE A1+ (20-Dec-22) | 1)CARE A1+ (30-Dec-21) | 1)CARE A1+ (01-Oct-20) |
| 5 | Fund-based - LT-Term loan | LT | - | - | - | - | 1)Withdrawn (30-Dec-21) | 1)CARE AA+; Stable (01-Oct-20) |

*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - ST-Bank overdraft | Simple |
| 2 | Fund-based/Non-fund-based-LT/ST | Simple |
| 3 | Non-fund-based - LT/ ST-BG/LC | Simple |

**Annexure-5: Lender details**

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|---|
| To view the lender-wise details of bank facilities please click here |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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